

Message Text

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PAGE 01 MANAGU 01657 301603Z

72

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

DODE-00 PM-03 H-02 L-02 PA-01 PRS-01 USIA-06 INT-05

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R 301505Z APR 75

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 6853

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L MANAGUA 1657

E. O. 11652: N/A

TAGS: ECR, ETRD, NU

SUBJECT: INDUSTRY VIEWS ON EMBARGO OF STEEN CONSTRUCTION RODS

REF: MANAGUA 1630

1. WE DISCUSSED GON DECISION TO SUSPEND INPORTATION OF CEMENT REINFORCING BARS (REBARS) WITH JOHN L. DRIVER, PRESIDENT OF METASA, IN WHICH U.S. STEEL HAS MAJORITY INTEREST, HE SAYS DECREE WAS NECESSARY TO PROTECT INDUSTRY AGAINST CONSEQUENCES OF GOVERNMENT INDUCED OVER-IMPORTATION OF STEEL BILLETS (SMALL INGOTS) AND REBARS, ESCALATION AND THEN COLLAPSE OF WORLD STEEL PRICES, AND DROP OF SALES IN NICARAGUA DUE IN PART TO CONSTRUCTION STRIKE IN MOST OF FIRST QUARTER.

2. METASA HAS ANNUAL CAPACITY TO PRODUCE 8,400 TONS OF REBARS FROM BILLETS, OTHER PRODUCER--INCA--HAS SOMEWHAT HIGHER CAPACITY BUT TOGETHER ARE UNABLE TO PROVIDE 45,000 TONS WHICH GON PRO-
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PAGE 02 MANAGU 01657 301603Z

JECTED AS NEEDED FOR RECONSTRUCTION UNDER POST-EARTHQUAKE

BUKLDING CODES. GON ASKED METASA TO IMPORT REBARS AND GAVE DUTY-FREE PERMIT (IMPORT DUTIES ARE \$30 MT PLUS 10 PERCENT AD VALORUM) FOR ABOUT 10,000 TONS. A FORMULA WAS DEVELOPED WHICH SET PRICE TO RECOVER COSTS AND REASONABLE PROFIT. COMPANY, WHICH ASSUMED ARRANGEMENT WAS EXCLUSIVE, IMPORTED ABOUT 10,000 TONS OF REBARS. FROM QUANTITIES IMPORTED COUNTRY- WIDE, DRIVER BELIEVES SAME ARRANGEMENT MUST HAVE BEEN MADE AVAILABLE TO OTHERS. METASA HAS OVER 7,000 TONS OF REBARS AND BILLETS IN INVENTORY AND INCA HAS A MINIMUM OF 10,000 TONS. THERE ARE AN ESTIMATED 25,000 TONS IN BOND (WHICH DRIVER SAYS WILL BE RELEASED) FOR A TOTAL INVENTORY OF AT LEAST 42,000 TONS, NEARLY A YEAR'S SUPPLY BOUGHT AT HIGH PRICES (APPROXIMATELY \$14 MILLION).

3. IN 1973 METASA WAS ABLE TO BUY BILLETS AT \$175 A TON CIF WHICH REACHED A PEAK OF \$356 IN MID-1974. INCA, ACCORDING TO DRIVER, PAID UP TO \$380. METASA BEGAN CANCELLING ORDERS IN JUNE 1974 WHEN IT WAS DISCOVERED THAT AN OVER-INVENTORY WAS DEVELOPING. IN ONE CASE, CANCELLED ORDER WAS RESOLD OTHER PURCHASER HERE AT MUCH LOWER PRICE. PRICES HAVE COME DOWN SUBSTANTIALLY WITH REBARS BEING OFFERED CIF AT BETWEEN \$250 TO \$300 PER TON, AND BILLETS AT \$195 CIF.

4. CONSUMPTION OVF REBARS HAS BEEN BELOW PROJECTIONS FOR SEVERAL MONTHS BECAUSE OF A CONSTRUCTION SLOWDOWN PARTLY CAUSED BY A TWO-MONTH STRIKE. BUSINESS HAS PICKED UP THIS MONTH AND METASA HOPES TO CLEAR ITS INVENTORY WITHIN A YEAR. DISCOUNTS BELOW OFFICIAL PRICES (\$154 CWT TO DISTRIBUTORS) ARE NOW COMMOM.

5. COMMENT: INDUSTRY JUSTIFICATION FOR DECREE APPEARS TO CENTER ON GON'S RESPONSIBILITY IN STIMULATING IMPORTS OF REBARS BEYOND NEED AND THEREFORE SHOULD PROTECT IMPORTERS AGAINST LOSSES. THE CONSUMER, OF COURSE, WILL PAY AT ONLY \$50 A TON DIFFERENCE (PROBABLY MORE LIKE \$100) BETWEEN ACTUAL AND PRESENT PRICES FOR THE 42,000 TONS IN STOCK THIS COMES TO \$2.1 MILLION.
SHELTON

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